MEMORANDUM

Farm Credit System Insurance Corporation

June 10, 2008

To: Chairman, Board of Directors
Chief Executive Officer
Each Farm Credit System Institution

From: Nancy C. Pellett Nancy C. Pellett
Chairman

Subject: Premium Rate Review

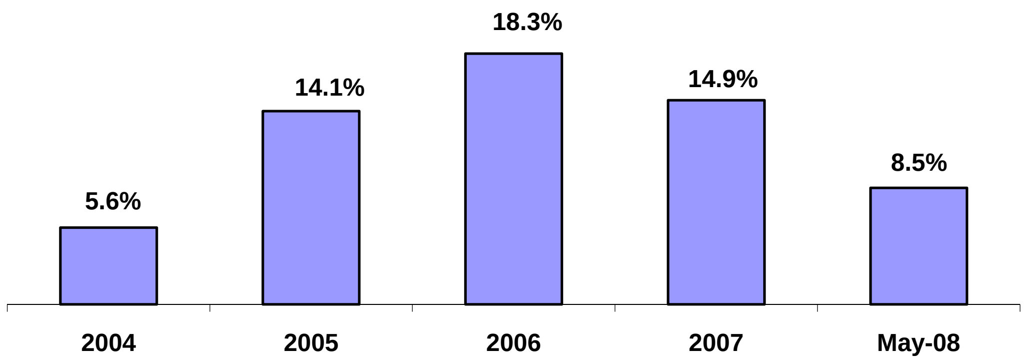
As you know, the Farm Credit System Insurance Corporation (FCSIC) requested that Congress update its insurance premium authorities. The recently passed Food, Conservation, and Energy Act of 2008 (Farm Bill) amends the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to assess premiums based on each bank's pro rata share of outstanding insured debt (rather than on loans), aligning premiums with what FCSIC insures. The Farm Bill imposes a premium assessment of 20 basis points on adjusted insured debt obligations with authority for the Board of Directors to reduce rates in its sole discretion. The amendments maintain a risk surcharge of 10 basis points on non-accrual loans and add a surcharge of 10 basis points on other-than-temporarily impaired investments.

In addition, the Farm Credit Act will no longer specify how the Farm Credit System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. Furthermore, the amendments simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow immediate distribution of excess Insurance Fund balances, when they may occur, to insured banks and the Financial Assistance Corporation stockholders. The amendments clarify that FCSIC may collect premiums more frequently than annually.

Finally, the amendments reduce the total insured obligations that are used for calculating the secure base amount and assessing premiums. The new assessment methodology allows the deduction of Federal and state-guaranteed investments from the adjusted insured obligations resulting in a lower secure base amount. The implementation of this change at May 30, 2008 resulted in an estimated deduction equal to 90 percent of \$8.451 billion (\$7.606 billion) in Federal-guaranteed investments from insured obligations. This deduction has the effect of reducing the secure base amount by 2 percent of \$7.606 billion or \$152 million. Thus, the Insurance Fund as a percentage of adjusted insured debt obligations increased to 1.73 percent as of May 30, 2008 from 1.65 percent at March 31, 2008. (See Attachments 1 and 2.)

The current level of the Insurance Fund relative to the 2 percent secure base amount and projected growth in insured debt remain the most important factors that the Board considers in its premium analysis. Through May, insured debt grew over $13 billion to $167.1 billion or 8.5 percent year-to-date. Growth since year-end 2003 has averaged 12.8 percent annually. Based on results through May, the annual rate of growth for 2008 may exceed the recent high of 18.3 percent set in 2006.

Growth in Insured Debt Averaged 12.8% Since Yearend 2003



Even with the improvements discussed above, the Insurance Fund remains significantly below the statutory 2 percent secure base amount. To ensure that the Insurance Fund continues to make progress back to the secure base amount, we will begin to implement the new premium authorities in the second half of 2008. Starting July 1, banks should accrue premiums on adjusted insured debt obligations.

The Board has decided to use its discretion to reduce the premium rate from the 20 basis points established in the Farm Bill to 15 basis points for the third quarter of 2008 and 18 basis points for the fourth quarter of the year. In addition, there will be a 10 basis point premium on the average principal outstanding for non-accrual loans and the average amount outstanding for other-than-temporarily impaired investments. These premiums should be accrued for the second half of the year. Premiums for the first half of the year have accrued under the old statutory premium schedule as set by the Board last January and will be paid with the new premiums in January 2009. Detailed instructions for the calculation and payment of premiums will be sent to each bank before year-end.

The Farm Credit Administration’s Office of Examination reports that overall System financial condition and performance remains fundamentally sound. Based on FCSIC’s most recent allowance for loss review of all banks and associations, it concluded that no losses to the Insurance Fund were known and the probability of any unknown losses was remote.

If growth in insured debt continues at double-digit rates, the Board has the flexibility to adjust rates for 2009 in order to continue making progress back to the secure base amount. As we did last year, the Board will provide premium guidance for 2009 financial planning after our September meeting.

Please feel free to contact FCSIC staff if you would like to discuss the new premium authorities or have any questions.

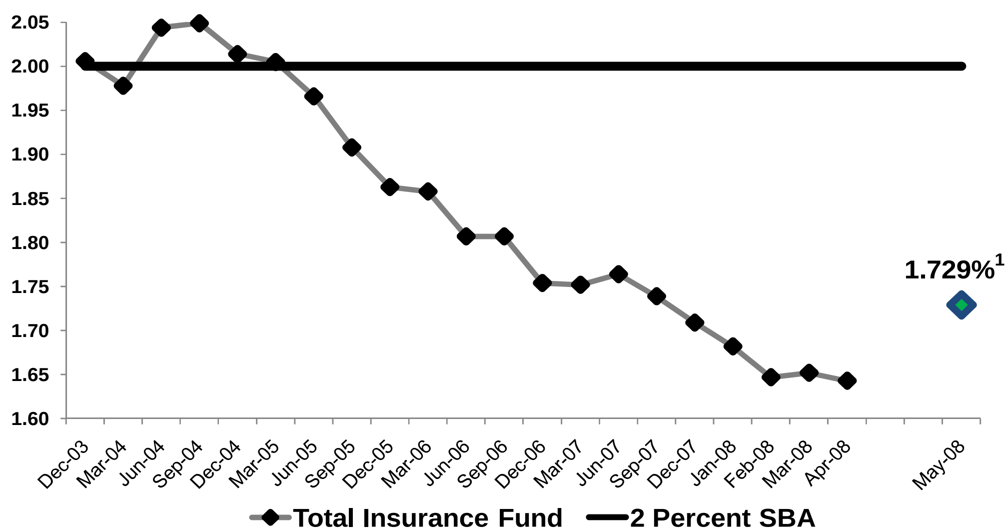
Attachment 1

SECURE BASE AMOUNT CALCULATION
As of May 30, 2008
($ in Millions)

DEBT OUTSTANDING	FINAL 12/31/2006	FINAL 12/31/2007	FINAL 3/31/2008	ESTIMATE 5/30/2008
Principal	133,958	153,941	163,850	167,061
Interest	1,253	1,400	1,294	1,294
Less:				
90% Fed. Guar. Loans	(3,308)	(3,255)	(3,356)	(3,356)
80% State Guar. Loans	(82)	(18)	(17)	(17)
New: 90% Fed. Guar. Investments ($8,451)				(7,606)
ADJ. INSURED DEBT	131,821	152,069	161,771	157,376
SECURE BASE AMOUNT (2%)	2,636	3,041	3,235	3,148
UNALLOCATED INSURANCE FUND BALANCE	2,272	2,558	2,632	2,681
UNALLOCATED AND ALLOCATED INSURANCE FUND BALANCE	2,312	2,598	2,672	2,721
UNALLOCATED INSURANCE FUND AS % ADJ. INSURED DEBT	1.724%	1.682%	1.627%	1.704%
UNALLOCATED AND ALLOCATED INS FUND AS % ADJ. INSURED DEBT	1.754%	1.708%	1.652%	1.729%

Attachment 2

Trend of the Total Insurance Fund Relative to the 2% Secure Base Amount May 30, 2008



[1] A change in the secure base amount (SBA) calculation methodology requested by the Insurance Corporation was included in the Food, Conservation and Energy Act of 2008. The new methodology allows the deduction of Federal and state guaranteed investments from the SBA in a manner similar to that used for Federal and state guaranteed loans. The implementation of this change at May 30, 2008 resulted in the estimated deduction of 90 percent of $8.45 billion of Federal guaranteed investments from insured obligations. This deduction has the effect of reducing the SBA by 2 percent of $7.606 billion, or $152 million.